



**MILLENNIUM
CHALLENGE
CORPORATION**

REDUCING POVERTY THROUGH GROWTH

FRANCES C. McNAUGHT
VICE PRESIDENT, CONGRESSIONAL AND PUBLIC AFFAIRS

Congressional Notification Transmittal Sheet

We wish to inform the Congress of our intent to provide funding of up to US\$460,940,000 under a Millennium Challenge Compact with the Republic of El Salvador.

The attached notification is being sent to Congress on November 9, 2006. Allocation and obligation of funds may be incurred on or after fifteen days from the date of this notification. MCC intends to obligate pursuant to Section 605 of the Millennium Challenge Act of 2003 (the "Act") up to US\$451,722,000 when the Compact enters into force. These funds will be disbursed in tranches over the course of the Compact's term upon satisfaction or waiver of relevant conditions precedent.

In order to accelerate implementation of the Compact, MCC will obligate up to US\$9,218,000 of the total amount when the Compact is signed, pursuant to Section 609(g) of the Act.

Sincerely,

Frances C. McNaught
Vice President
Congressional and Public Affairs

Enclosure:
As stated



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November 9, 2006

CONGRESSIONAL NOTIFICATION

Pursuant to Section 515 of the Foreign Operations, Export Financing and Related Programs Appropriations Act, 2006 (Pub. L. 109-102) and the Continuing Appropriations Resolution, 2007 (Pub. L. 109-289), the Millennium Challenge Corporation (MCC) wishes to notify Congress of its intent to enter into a Millennium Challenge Compact ("Compact") with the Government of El Salvador through which MCC will grant up to \$369,000,000 of FY 2006 Millennium Challenge Account ("MCA") funds and \$91,940,000 of FY 2007 MCA funds, for a total amount of \$460,940,000. Of the total amount, MCC intends to obligate up to \$451,722,000 under Section 605 of the Millennium Challenge Act of 2003 (the "Act") when the Compact enters into force. These funds will be disbursed in tranches over the course of the Compact subject to relevant conditions precedent. In order to accelerate implementation of the Compact, MCC will obligate up to \$9,218,000 of the total amount ("Compact Implementation Funding") when the Compact is signed, under Section 609(g) of the Act.

The Compact Implementation Funding is included in the total amount of MCA funds under the Compact and will not increase the overall MCA funding commitment to El Salvador. Among other activities, these funds will support

1. payments for reasonable and normal staff salaries and administrative expenses of the Compact implementing entity;
2. fiscal oversight and procurement management activities;
3. gender assessments;
4. designs and supplemental environmental and social assessments determined necessary by MCC; and
5. data collection in connection with the monitoring and evaluation plan.

Compact Implementation Funding will be subject to (A) the limitations on the use or treatment of MCC funding set forth in Section 2.3 of the attached Compact and (B) any other requirements and limitations specified by MCC in writing.

Under Section 610(a) of Act, the appropriate Congressional committees were notified on July 12, 2006, of MCC's intent to commence negotiations with El Salvador. The result of these negotiations will be formalized in a Compact substantially as set forth in the attachment. Key elements of the Compact are set forth in the accompanying "Executive Summary." MCC will provide the final text and detailed summary of the Compact to the appropriate Congressional committees no later than 10 days after the execution of the Compact, as provided in Section 610(b) of the Act.



MILLENNIUM CHALLENGE CORPORATION

REDUCING POVERTY THROUGH GROWTH

MILLENNIUM CHALLENGE COMPACT BETWEEN THE UNITED STATES OF AMERICA, ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION AND THE GOVERNMENT OF THE REPUBLIC OF EL SALVADOR

EXECUTIVE SUMMARY

The Board of Directors of the Millennium Challenge Corporation (MCC) approved a five-year, \$460.94 million anti-poverty Compact with the Government of El Salvador that seeks to stimulate economic growth and poverty alleviation in the country's northern region, where more than 53 percent of the population live below the poverty line. The grant will improve the lives of approximately 850,000 Salvadorans through strategic investments in education, public services, enterprise development, and transportation infrastructure. It is expected that as a result of the Program, incomes in the region will increase by 20 percent over the five-year term of the Program, and by 30 percent within ten years of the start of the Program.

In 1992, El Salvador signed a monumental Peace Accord that ended a decade of civil conflict. The war cost over 70,000 lives and left nearly two-thirds of El Salvador's population in poverty. During the war, human capital formation lagged, public investment was deferred, and deterioration of the natural resource base accelerated. The northern region of El Salvador (the Northern Zone) fared the worst, as its mountainous territory served as the primary conflict zone, increasing violence and instability in the area and causing an exodus of large numbers of inhabitants. Despite El Salvador's significant national economic growth and poverty reduction that followed the Peace Accord, economic and social progress has stagnated in recent years.

Overcoming these obstacles and physically unifying the Northern Zone with the rest of the country are national priorities. The formerly marginalized population of the Northern Zone requires a comprehensive development program to enable it to fully participate in El Salvador's growth, the benefits of regional integration, and the economic opportunities brought about by the recently signed Central America-Dominican Republic-United States Free Trade Agreement.

Human Development Project (\$95.07 million)

The Human Development project is designed to support formal and non-formal education as well as extend the reach of essential services and infrastructure including water and sanitation, electricity and other local infrastructure benefiting poor communities. This project is based on the foundations and ongoing work of two existing Government of El Salvador programs – the Solidarity Network and the National Education Plan 2021. MCA funding will support the following two broad activities:

- Education and training, both formal (secondary and post-secondary technical and vocational) and non-formal (skill development programs) aimed to increase employment opportunities for the region's poorest inhabitants.

- Community development that will provide improved access to potable water systems for 90,000 people and improved sanitation services for more than 50,000. Electricity coverage in the Northern Zone will increase from 70 percent to no less than 97 percent, benefiting 235,000 individuals. Through construction and improvement of community infrastructure (e.g., tertiary roads, improved drainage, and small bridges) over 130,000 people will have greater access to markets, employment, and facilities supporting health and education.

Productive Development Project (\$87.47)

The Productive Development project will assist with the development of profitable and sustainable productive business ventures, with a primary focus on assisting poor farmers to grow high-value crops, forestry, and animal products. Business development support for micro, small and medium enterprises in other sectors, including tourism and artisan work, also will be provided. The principal beneficiaries of the Productive Development project are expected to be the 55,000 poor people employed in agriculture, agribusinesses and non-farm activities, including producers, and micro, small and medium companies. MCA funding will support the following three activities:

- Production and business services will provide pre-investment assessments; assistance to small farm enterprises; and technical assistance and training to support the development of agribusiness and non-agricultural commercial activities.
- Investment support will provide investment capital to competitively selected applicants for business activities.
- Financial services will provide financial enhancements to support increased lending activity by banks and non-bank financial institutions in the Northern Zone.

Transportation Project (\$233.56)

The largest of the three components, the Transportation project, addresses the issue of the Northern Zone's physical isolation. Road infrastructure improvements are expected to lead to new economic opportunities for rural households, lower transportation costs, and decreased travel times to markets and social service delivery points for more than 600,000 beneficiaries. This component includes two activities:

- The Northern Transnational Highway will include the design, construction, and rehabilitation of a 289-kilometer two-lane secondary road, forming a transportation corridor from Guatemala to Honduras across the Northern Zone of El Salvador. More than 80 percent of the highway will involve rehabilitation, with only 50 km of new roads.
- The Connecting Roads Network will include paving and improvement of 240 kilometers of unpaved roads that will enable increased access to markets, health, and education services, and integrate the Northern Zone with national and regional highway systems.

The Compact also includes \$44.85 million for program administration and monitoring and evaluation.